

Message Text

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PAGE 01 AMMAN 06214 01 OF 02 271059Z
ACTION NEA-10

INFO OCT-01 ISO-00 ONY-00 SSO-00 /011 W
-----090043 271109Z /10 R
O 271033Z JUL 78
FM AMEMBASSY AMMAN
TO SECSTATE WASHDC IMMEDIATE 7018

S E C R E T SECTION 01 OF 02 AMMAN 06214

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FOR NEA VELIOTES FROM SUDDARTH

E.O. 11652: GDS
TAGS: MASS, JO, US
SUBJECT: JORDAN'S FY 78 FMS FINANCING AGREEMENT

REF: STATE 189472

1. EMBASSY IS FIRMLY OF THE VIEW (AS WAS AMBASSADOR PICKERING) THAT JORDAN IS NOT IN A POSITION TO REPAY FMS CREDIT, AND THEREFORE THAT A THIRD PARTY GUARANTOR IS STILL REQUIRED. ECONOMICALLY IT WOULD BE IMPRUDENT FOR JORDAN TO DO SO, GIVEN THE CONSIDERABLE UNCERTAINTY REGARDING THE FUTURE AVAILABILITY OF EXTERNAL FINANCIAL ASSISTANCE AND THE BURDEN OF DEBT THAT MAY BE REQUIRED IN CONNECTION WITH SELECTED ECONOMIC DEVELOPMENT PROJECTS.

2. REGARDING FOREIGN EXCHANGE LEVELS, THERE ARE ONLY ABOUT SEVEN/EIGHT MONTHS OF IMPORTS AND, MORE IMPORTANTLY, THE GOJ HAS ALWAYS RECOGNIZED THAT A SUBSTANTIAL FOREIGN EXCHANGE IS NEEDED FOR BUSINESS CONFIDENCE AND AS A HEDGE AGAINST CHRONIC UNCERTAINTY REGARDING ARAB SUBSIDIES PARTICULARLY SINCE THE \$175 MILLION RABAT SUBSIDY NOW

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LAPSED. GOJ ANTICIPATES A BUDGET CRUNCH IN 1979 IF RABAT SUBSIDIES ARE NOT RENEWED.

3. IN MEDIUM TERMS, GOJ HAS APPEALED TO U.S. FOR FINANCIAL UNDERSTANDING OF GOJ DIFFICULTIES DURING FORTH-COMING SEVERAL YEAR PERIOD WHEN GOJ IS INCURRING DEBTS FOR ECONOMIC DEVELOPMENT PROJECTS. GOJ NOW ENJOYS

GOOD ACCESS TO EURODOLLAR MARKET FOR FINANCING MAJOR DEVELOPMENT PROJECTS BECAUSE OF ADEQUACY OF FOREIGN EXCHANGE RESERVES AND OPEN EXCHANGE POLICY. ADDING REPAYMENT OF MILITARY SALES CREDIT COULD REDUCE OR MAKE MORE DIFFICULT GOJ ACCESS TO THE EURODOLLAR MARKET WHICH JORDAN WILL NEED TO FINANCE SOME PORTION OF ITS MAJOR CAPITAL PROJECTS, E.G., FERTILIZER, POTASH AND OTHERS. ADVERSE IMPACT ON JORDANIAN ECONOMIC DEVELOPMENT PROGRAM WOULD BE SELF-DEFEATING IN TERMS OF PROMOTING GREATER JORDANIAN SELF-SUFFICIENCY AND ULTIMATELY STABILITY. IT IS FOR THESE REASONS, AS WELL AS POLITICAL REASONS OF WHICH DEPARTMENT AWARE, WE HAVE CONTINUED TO PROVIDE ESSENTIAL BUDGET SUPPORT TO JORDAN. IN ADDITION TO NEED IT IS INAPPROPRIATE (AND ILL ADVISED IN OUR PRESENTATION TO CONGRESS) THAT WE PROVIDE BUDGET SUPPORT AND AT SAME TIME ASK GOJ TO FUND FMS REPAYMENTS.

4. WE ALSO DO NOT RPT NOT BELIEVE THAT GOJ REGARDS IT AS ECONOMICALLY FEASIBLE TO UNDERTAKE REPAYMENT FY 78 FMS LOAN. OUR UNDERSTANDINGS WITH GOJ, FROM KING ON DOWN, ARE THAT JORDAN WOULD FIND A BACKER FOR ITS LOANS. GOJ HAS CONTINUALLY AND OFFICIALLY TOLD US THAT ALL GOJ BORROWING IN COMING PERIOD WILL AND MUST BE CONFINED TO FINANCING A FEW SELECTED AND HIGH PRIORITY ECONOMIC DEVELOPMENT PROJECTS (E.G., POTASH AND FERTILIZER) WHERE THERE IS DEMONSTRATED ECONOMIC PAYBACK FOR DEBTS.

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5. REGARDING GEN. MAJALI REMARK MENTIONED PARA 1 REFTTEL ABOUT JORDAN BEING TREATED AS A SOVEREIGN COUNTRY, ETC., DATT COL. THOMPSON, WHO ATTENDED JMC, ASSURES ME MAJALI'S REMARK WAS CONFINED ENTIRELY TO MAJALI'S DESIRE TO RELEASE ONLY \$7 1/2 MILLION PORTION OF FY 77 FMS WHICH IS OUTSIDE OF \$150 MILLION THIRD-PARTY BACKED PORTION, AND WHICH MAJALI BELIEVES JORDAN CAN SOMEHOW FINANCE BY SHORT-TERM INTEREST IT WOULD COLLECT IN SAUDI FUNDS. MAJALI WAS NOT RPT NOT ARGUING THAT JORDAN SHOULD GENERALLY BE GIVEN FMS CREDIT WITHOUT A THIRD PARTY BACKER AND TODAY RE-AFFIRMED TO DATT THAT JORDAN IS LOOKING FOR A BACKER FOR ITS FY 78 FMS CREDIT.

6. PER PARA 1 REFTTEL EMBASSY CONCURS IN DROPPING FORMAL REQUIREMENT FOR A THIRD PARTY GUARANTOR PRIOR TO SIGNING THE FY 78 FMS LOAN AGREEMENT. WE BELIEVE CAVEAT SHOULD BE INCLUDED TO MAKE CERTAIN JORDAN UNDERSTANDS THAT DRAWDOWNS WILL BE PERMITTED ONLY AFTER THIRD PARTY BACKING HAS BEEN ASSURED. (IN THIS CONNECTION WE ARE NOT SURE WHAT "TIMELY REPAYMENT" MEANS IN PARA 1 REFTTEL BUT ASSUME THERE WOULD BE A DEFINITE UNDERSTANDING IT

MEANS REPAYMENT BY THIRD PARTIES.) WE DO NOT RPT NOT
BELIEVE THIS CAVEAT WOULD BE AN IRRITANT SINCE GOJ FULLY
UNDERSTANDS THE BASIC THIRD PARTY REPAYMENT REQUIREMENT.

7. GOJ IS AWARE FROM JMC OF NEED TO FIND A BACKER
FOR FY 78 FMS PROGRAM BUT WE HOPE DEPARTMENT IS AWARE
THAT THIS MAY REQUIRE SEVERAL WEEKS OR MONTHS. WE
ASSUME THIS SITUATION WILL NOT RPT NOT HOWEVER PRECLUDE
OUR NOW SIGNING FY 78 FMS AGREEMENT. ALSO, WHILE
RECOGNIZING FMS PROGRAM PRESSURES, WE BELIEVE IT IS A

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FM AMEMBASSY AMMAN
TO SECSTATE WASHDC IMMEDIATE 7019

S E C R E T SECTION 02 OF 02 AMMAN 06214

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BIG MISTAKE TO RAID THE 1978 JORDANIAN FMS CREDIT PROGRAM
BECAUSE JORDAN DOES NOT PRESENTLY HAVE A BACKER.
NEGOTIATIONS WITH JORDAN'S ARAB PARTNERS ON MONEY MATTERS
IS A COMPLICATED MATTER, BUT JORDAN HAS THUS FAR BEEN
ABLE TO PRODUCE THIRD PARTY BACKERS AND WE SEE NO REASON
TO ASSUME JORDAN CANNOT CONTINUE TO DO SO, PARTICULARLY
SINCE KING IS MOUNTING AN ACTIVE PROGRAM OF CONTACTS
WITH OIL RICH STATES. IN THIS CONNECTION THERE IS
STRONG POSSIBILITY PRINCE FAHD WILL BE COMING TO JORDAN
SOON. SUDDARTH

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